

Message Text

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ACTION EA-12

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TAGS: ENRG, NZ

SUBJECT: HUNT PETROLEUM MAKES NOISES ABOUT PULLING OUT
OF NEW ZEALAND

1. BEGIN UNCLASSIFIED. IN RECENT MONTHS, THE GNZ,
OFTEN THROUGH THE PRIME MINISTER HIMSELF, HAS BEEN
MAKING OPTIMISTIC PUBLIC STATEMENTS ABOUT THE FINDINGS
OF HUNT PETROLEUM'S DRILLING RIG WORKING IN THE GREAT
SOUTH BASIN OFF NEW ZEALAND'S STEWART ISLAND. HEADLINES
LIKE "PROMISING OIL EXPLORATION SITUATION" AND
"BELIEF OF OIL STRIKE GAINS GROUND" HAVE BEEN
MANY AND FREQUENT. IT CAME AS SOMETHING OF A BLOW TO
SUCH HIGH HOPES, THEREFORE, WHEN HERBERT HUNT TELEXED
THE PRIME MINISTER A WEEK AGO THAT HIS COMPANY WAS
PULLING OUT OF THE OIL SEARCH WHEN DRILLING OF ITS FIFTH
HOLE IS COMPLETED; HUNT HAS A CONTRACTUAL COMMITMENT
TO DRILL FIVE HOLES, AND FOUR HAVE BEEN COMPLETED TO
DATE.

2. LATE IN 1976, THE GOVERNMENT PROPOSED, APPARENTLY
WITHOUT PRIOR NOTIFICATION TO HUNT, A DOLS 3 PER BARREL
LEVY ON OIL TAKEN OUT OF THE BASIN. UPON LEARNING OF
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THAT PROPOSAL, HUNT SUSPENDED DRILLING, AND THE PROPOSAL
WAS EVENTUALLY WITHDRAWN. IT IS KNOWN THAT THE
GOVERNMENT IS NOW ONCE AGAIN CONSIDERING HOW TO TAX
PETROLEUM WHICH MAY BE FOUND, AND DISCUSSIONS INVOLVING
THE GOVERNMENT, HUNT, AND OTHER OIL COMPANIES HAVE
BEEN UNDER WAY IN RECENT WEEKS. HUNT'S THREAT TO PULL
OUT AFTER THE FIFTH WELL IS BEING SEEN HERE AGAINST

THAT BACKDROP, AND THE GOVERNMENT HAS ASSUMED--INDEED THE PRIME MINISTER HAS SAID PUBLICLY--THAT HUNT IS "PLAYING POKER" IN AN EFFORT TO SECURE A MORE FAVORABLE TAXATION POLICY.

3. THERE HAS ALSO BEEN SPECULATION THAT THE HIGH COST OF DRILLING IN THE BASIN (IT IS ESTIMATED THAT HUNT HAS PUT ABOUT DOLS 40 MILLION OF ITS OWN MONEY INTO THE PROJECT TO DATE) AND THE HUGE COSTS WHICH WOULD BE INVOLVED IN DEVELOPING THE TECHNOLOGY TO BRING OIL OUT OF THE BASIN FLOOR MAY HAVE LED HUNT TO THE CONCLUSION THAT IT SHOULD CUT ITS LOSSES. WITH THE NORTH SEA AND ALASKA BOTH "ON-STREAM", A PLATEAU IS EXPECTED TO EMERGE IN OIL PRICES OVER THE NEXT FEW YEARS, AND THE GREAT SOUTH BASIN MAY NOT SEEM TOO ATTRACTIVE A PROPOSITION AFTER ALL. END UNCLASSIFIED.

4. BEGIN LIMITED OFFICIAL USE. EMBASSY COMMENT: WE ARE TOLD BY HUNT SOURCES THAT THE DRILLING THEY HAVE DONE TO DATE INDICATES THAT THERE ARE SIGNIFICANT DEPOSITS OF HYDROCARBONS UNDER THE BASIN FLOOR, BUT THE CONDITIONS OF DEPTH AND WEATHER THERE ARE SO HOSTILE THAT A MAJOR INVESTMENT IN TECHNOLOGY DEVELOPMENT (SOME HAVE SUGGESTED A COST SEVERAL TIMES NEW ZEALAND'S ANNUAL GNP) WOULD BE REQUIRED TO BRING THE OIL TO THE SURFACE. THESE DIFFICULTIES MUST HAVE BEEN KNOWN TO HUNT FROM THE OUTSET, LIMITED OFFICIAL USE

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HOWEVER, AND IT CAN ONLY BE ASSUMED THAT THE FIRM ACCEPTED ITS PRESENT COMMITMENT AFTER MAKING SOME CAREFUL COST CALCULATIONS. THE PRIME MINISTER HAS PROBABLY HIT THE NAIL ON THE HEAD IN SUGGESTING THAT HUNT IS "PLAYING POKER," BUT THE DOLS 3 PER BARREL LEVY WAS QUICKLY DROPPED WHEN IT PROVED UNPALATABLE IN 1976. CHANCES ARE A COMPROMISE TAX BASIS WILL BE FOUND, BUT THE PRECISE TERMS MAY WELL NOT BE MADE PUBLIC. END LIMITED OFFICIAL USE. SELDEN

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